



New  
Philanthropy  
Capital

## A Question of Charity

Lecture by Martin Brookes, NPC Director of Research, at the RSA (Royal Society for the encouragement of Arts, Manufactures & Commerce), 19 November 2007

### The performance of charities is not independently assessed or scrutinised.

You may remember that ITV got into trouble recently for rigging the results of TV phone-ins. Viewers were calling to vote in competitions, but it turned out the results were being fixed. The really interesting thing for me was the way Ant and Dec, two of ITV's star presenters, reacted.

Ant and Dec were the presenters and producers of one of the programmes involved. They responded by pledging all the profits from their next series of *Saturday Night Takeaway* to charity.<sup>1</sup>

This episode tells us a great deal about how we view charities—and about the problems I want to address tonight.

Pledging profits to 'charity' was seen as a suitable response and it took pressure off Ant and Dec. Nobody asked which charities they would give the money to, how they would be chosen, or what the money was going to achieve. It was enough just to say the money would go to charity. And they weren't the only ones. The chairman of ITV, Sir Michael Grade, made a similar promise on *Newsnight* about the proceeds from the phone-ins.

What these statements reflect is a broader tendency not to subject all charities to scrutiny, to regard them as intrinsically good, and not needing further investigation. It is that tendency and its consequences that are the theme of my lecture tonight.

### Measuring things

Two years ago, the head of the civil service, Cabinet Secretary Sir Gus O'Donnell set in train a series of studies of the capabilities of government departments. According to Sir Gus, "these reviews will give civil service leaders a real grip on how well the service is performing and not by its own measure but by independent, credible, objective assessment."<sup>2</sup>

This was an important step in trying to improve the working of the civil service. It was significant for another reason too. It meant that charities were left as—if not the only—certainly one of the very few types of organisation whose performance is not scrutinised these days.

The capability reviews are complicated. It is not easy to measure success in Whitehall departments. They are buffeted by events and they are complex organisations with lines of

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<sup>1</sup> Ant and Dec profits go to charity, BBC News, <http://news.bbc.co.uk/1/hi/entertainment/7054373.stm> [accessed 26 October 2007]

<sup>2</sup> O'Donnell, G. (2005) Departmental Capability Reviews – Note to the Public Administration Committee. Civil Service.

accountability which the ippr says are “like a bowl of spaghetti”.<sup>3</sup> They also have a strong tradition of public service.

Much the same could be said of charities. But perhaps one key difference between charities and government departments is that no-one seems to think it is important to assess charities.

In this lecture, I will argue that this lack of scrutiny is bad. It results in worse performance. And I am going to argue that greater scrutiny of charities is inevitable—and that a new institution should be established to assess and improve their performance.

### Who gets measured

If you do a roll call of bodies that now come under greater scrutiny, it shows just how isolated is the position of charities.

Schools' performance is assessed by Ofsted and tracked (albeit imperfectly) by league tables.

Hospitals are assessed by the Healthcare Commission, soon to be replaced by the Care Quality Commission.

Police Authorities assess the police, as does the Inspectorate of Constabulary.

Local authorities are assessed by the Audit Commission.

The National Audit Office as well as the House of Commons Public Accounts Committee look at public spending.

Outside the public sector, privately owned utility companies are assessed and regulated by Ofgem, Ofwat and other bodies. And publicly listed companies are scrutinised and assessed by an army of analysts in the pay of investors and banks as well as by specialist journalists.

All of these bodies and programmes involve independent scrutiny, analysis and, often, judgement. This last varies in tone, but judgement is invariably present to some degree.

The position of charities is very different. The Charity Commission, as official regulator, asks only if a charity is “for the public benefit” in the language of the new Charity Act. In other words, is it legitimately a charity?

“Public benefit” is a state. It is either present or it is absent. A binary judgement. You provide it or you don't. The Charity Commission does not assess how much public benefit a charity provides. You only know what charities say about themselves.

But performance can vary and the Charity Commission does recognise this. It sees its role also as helping charities to maximise their impact and to boost effectiveness. But helping charities be effective is not the same as assessing how effective they are. As the Commission says of its Review Visits to charities;

“[A] Review Visit is neither an audit nor an inspection.”<sup>4</sup>

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<sup>3</sup> Lodge, G & Rogers, B. (2006) *Whitehall's Black Box: Accountability and performance in the senior civil service*. Institute for Public Policy Research.

<sup>4</sup> Charity Commission website, <http://www.charity-commission.gov.uk/enhancingcharities/reviewprog.asp> [accessed 8 October 2007].

The Commission seeks not to judge, but to help, and then on only limited aspects of organisations' work. Scrutiny, analysis and assessment aren't on the agenda.

Some foundations and other grant-makers do assess charities before distributing funds, but these are few and often apply arbitrary criteria. Government funders, too, require information from charities, but this is usually tied to specific projects they are funding. And both groups invariably keep their deliberations private.

So we are in the curious position where charities are assessed only as to their legitimacy as charities; it is recognised that performance might vary and therefore some are better than others; but we don't bother to inquire further. Crucially, there is no body charged with producing independent, credible, objective assessments of charities.

### Why charities are not scrutinised

Now, there are a number of possible reasons why charities escape the same scrutiny and accountability that applies to most other organisations in society.

First, we don't care. Giving to charities is about disinvestment rather than investment. It is about assuaging guilt, easing one's conscience, making a gesture, currying favour. The impact of donations is secondary. Why bother spending time and effort assessing how the money is used. It is enough that Ant and Dec pledge their profits to charity. That's one theory.

Second, and related to this, we don't discriminate between charities. Instead we think only of 'charity'—a homogenous group—even though most of us can name a few individual ones. There are lots of examples of us talking about 'charity' in such a way. For example, British Airways recently sold off customers' unclaimed luggage, donating the (majority of the) proceeds to 'charity'.<sup>5</sup> Share schemes run by employers ask staff if they want residual amounts given to 'charity'. Think Ant and Dec and Sir Michael Grade.

And charities themselves often take this approach. Conversations with charities and their representatives usually include many references to 'the sector'.

A third possibility is that charities are different. Their nature—their very purpose and origins in helping people—sets them apart from other institutions. The Charity Commission Chair, Dame Suzi Leather, reflected one aspect of this when she said recently.

"At an individual level and collectively I think charities complete us. There is something about—at least there was for me—the kind of befriending aspect of being a volunteer in the Probation Service, which meant so much to somebody on the receiving end. Why are you here? Because I want to be. I'm not here because I'm paid to be or because I'm expected to be. I'm simply here as a gift. And that is a completely different quality of relationship."<sup>6</sup>

Perhaps so different that it puts the activity itself beyond scrutiny or question. Once you've established the activity is for the public benefit, you pay your compliments and you move on.

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<sup>5</sup> Untagged bags piled up at airport, BBC News, <http://news.bbc.co.uk/1/hi/uk/6294289.stm> [accessed 24 September 2007].

<sup>6</sup> Miles, A. & Rumbelow, H., The Dame who'll give private school a lesson in what charity really means. The Times 18 August 2007.

The use of volunteers sets charities aside from many other organisations. Charities give people the chance to help and a sense of worth and purpose. This sense of purpose is frequently presented as a distinguishing characteristic of working in a charity. The people are nicer—that's what some in the voluntary sector might say.

I have to say, though, that I've worked in all three sectors—public, private and charitable—and, while it's dangerous to extrapolate from small samples, I certainly don't think people are nicer in the voluntary sector!

But there clearly are differences in behaviour. And if I choose to work or volunteer in a charity, perhaps I would take umbrage if someone asked me to demonstrate my effectiveness.

A final possibility is that we would like to see analysis of charities but think it is too hard. Charities cannot be reduced to a simple profit and loss account like a company. They deal with people. And, besides, many charities campaign to change attitudes or policies. Analysing them is beyond any available methodology.

It's certainly very hard to find much coverage of charity performance in the press. I can't think of any significant coverage in the main sector publications. Imagine the Companies and Markets section of the *Financial Times* without discussion of company profits. This is not though, one must stress, the fault of the journalists. The fault is the lack of performance data.

Each of these explanations might be partly true.

Fortunately, my purpose is not to determine exactly why charities escape scrutiny. It's enough to show that there are plausible arguments as to why.

### Why scrutiny matters

But despite the fact we seem to treat charities as somehow different, we still care that money we donate to charity is spent wisely. A large majority of people want to know how the money is spent, and what it achieves.<sup>7</sup>

So, we seem to want charities to be accountable. But we don't want to make the discriminating judgements which might follow from this. And we certainly haven't established a system in which assessment and scrutiny is the norm.

I believe that this lack of scrutiny is not healthy.

And it's not fair to the taxpayer or the donor either.

Charities received a total of £1.3 billion of subsidy through tax-efficient giving in the last financial year.<sup>8</sup> This money could go into schools and hospitals. No-one sits in judgement over the value for money provided by this.

And private donors—that's you and me—give almost £9 billion whose impact is not adequately recorded or monitored.

If there were infinite amounts of money, this wouldn't matter. But money is limited so we need to think about performance.

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<sup>7</sup> Charity Commission (2004) Transparency and accountability.

<sup>8</sup> Charities Aid Foundation (2007) Charity Trends 2007.

By performance I mean some measure of social return or value. To use the jargon, I care about outcomes and about impact. A social need must be matched with a means of effectively addressing it.

In short, results matter.

In a world where there are huge problems and the potential to do good, I don't want to see charitable donations being wasted—or achieving less than they could. And I want those donating to do so with knowledge.

We need to proceed carefully through the argument about scrutiny. It has three stages.

- First, performance varies. Not all charities are the same.
- Second, independent scrutiny improves performance.
- Third, a different perspective improves performance even more.

I noted earlier the Charity Commission's implicit belief that the performance of charities varies. This was also recognised recently by the Audit Commission.<sup>9</sup>

One of the problems we face, though, is that there's little hard data to support this belief. At present there are few available means of assessing charities and none which focus on a measure of value or worth.

It's possible to come up with financial ratios for charities—but most of these are useless and they can be downright misleading.

So the lack of performance metrics makes it hard to be absolutely sure that performance varies. But we can make pretty powerful inferences by looking elsewhere.

The performance of companies varies enormously. For example, the gap between the returns on the top and bottom quartile car manufacturers in the world was 25% over the past five years.<sup>10</sup>

Such publicly quoted companies face enormous scrutiny and pressure to chase high returns. They are being probed and examined by many people—journalists, trade magazines, equity analysts, as well as fund managers, and the wider public. And yet, we still see big variations in performance.

If the performance of companies facing such scrutiny varies so much, what's it likely to be in charities which don't face this kind of scrutiny and which publish very little performance data?

A similar picture emerges wherever you look—schools, hospitals, surgeons or police forces. To pick just one recent example, police in the 'worst' force overall last year, Bedfordshire, were half as likely to make an arrest in a domestic violence incident as police in North Yorkshire.<sup>11</sup> Maybe there are explanations for this which have nothing to do with performance. But perhaps it has a great deal to do with performance.

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<sup>9</sup> Audit Commission (2007) Hearts and minds—Commissioning from the voluntary sector.

<sup>10</sup> Mohammed Fawaz, Fulcrum Asset, private communication.

<sup>11</sup> Home Office Police Performance website, <http://police.homeoffice.gov.uk/performance-and-measurement/performance-assessment/assessments-2006-2007/> [accessed on 12 October 2007].

A fascinating tale on variations in performance comes from Atul Gawande, a writer for the *New Yorker* magazine and a surgeon in Boston, Massachusetts.<sup>12</sup> Gawande writes about the treatment of US patients with cystic fibrosis. Life expectancy varies according to where you are treated. Patients at an average treatment centre had a life expectancy in 1997 of just over 30. But this rose to 47 at the best centre.

Unless there is something very different indeed about charities, it seems reasonable to believe that some are 'better' than others. It is, to me, a statement of the obvious that performance varies between charities. But it has rarely been said. And its implications are even more rarely considered.

Accepting that performance does vary, we can draw two conclusions. Donors can, at least in theory, find 'better' homes for their money. And, charities themselves might benefit from comparing performance—some should be able to improve and others have valuable experiences and practices to share.

The second step in my argument is that independent scrutiny and assessment usually have positive benefits.

It's important to disentangle and consider the mechanisms that might be at work here. There are two schools of thought. The first is that public information can get in the way of professionals and it seems to assume that any variation in performance is acceptable. The second believes scrutiny creates incentives for improvement.

The first school is exemplified by Onora O'Neill, the philosopher and 2002 Reith lecturer.<sup>13</sup> An implicit assumption in O'Neill's Reith lectures is that public services are well-provided by competent professionals. She reasons that;

"[T]rust seemingly has receded as transparency has advanced. ... It is quite clear that the very technologies that spread information so easily and efficiently are every bit as good at spreading misinformation and disinformation. Some sorts of openness and transparency may be bad for trust."

It is the information which is at fault, not the professionals. There is nothing wrong with the Bedfordshire police performance on domestic violence. It is those infernal statisticians who insist on adding up and publishing the numbers.

The second school of thought comes from economics. Scrutiny is closely linked to transparency. And economists like transparency in part because they think people are inherently lazy. Transparency makes it more difficult to be lazy.

Tomas Bat'a, the early 20<sup>th</sup> century founder of the Czech shoe company that bears his name provides an exemplar of this view. Bat'a liked to keep an eye on his employees. So he put his office in the lift at the company's headquarters. That way he was able to go up and down monitoring activities on all the different floors.<sup>14</sup> I can imagine some economists nodding approvingly at this strategy.

Either trust professionals, or assume people don't like work. These two schools reflect profoundly different philosophies.

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<sup>12</sup> Gawande, A. (2007) *Better—A surgeon's notes on performance*. Profile Books.

<sup>13</sup> O'Neill, O. (2002) *A Question of Trust—The BBC Reith Lectures 2002*. Cambridge University Press.

<sup>14</sup> Nadel, I. (2002) *Double act—A life of Tom Stoppard*. Methuen.

While it is easy to wince at the cynical economist's perspective, it is also easy to shy away from the optimism of Onora O'Neill.

It's possible, though, to chart a middle course which starts from the premise that information empowers. It empowers you, consumers and donors, to make better, more informed choices, and by having information you can put pressure on producers. And information empowers producers to learn about their peers and competitors, giving them scope to improve.

Scrutiny and information can therefore help in three ways. Private information shared among professionals can help organisations learn from each other.

If made public, the information and assessments might increase incentives for organisations to improve. And it might also allow consumers to pick higher performers.

If the evidence supports these kinds of effects in other vocational fields, it is hard to see why the same reasoning wouldn't apply to charities.

And evidence suggests that performance measurement and publication does raise standards in areas such as healthcare.

I described earlier variations in life expectancy for people with cystic fibrosis. Data on this has been produced in the US since 1964 on an anonymised basis, but with hospitals able to see their own position.

A few years ago, Cincinnati Children's Hospital was in the bottom 25%—one of the worst performers. So what did it do? The hospital was open about it—it told parents about its performance and its plans to improve. Strikingly, all parents decided to stick with the hospital rather than go elsewhere.

The key point is that without information on its performance, Cincinnati would not have known it was a poor performer. The professional desire of staff to improve drove greater transparency and honesty with patients.

Professional pride alone can be enough to raise standards provided information about performance is produced and privately available. But public scrutiny can improve things further.

One widely quoted example in healthcare comes from a small industry of researchers who have analysed the impact of coronary surgery report cards which have been published for the state of New York since 1991, and, more recently, for Philadelphia and New Jersey.

The clear result from this literature is that greater public information resulted in lower mortality rates.<sup>15</sup> Similar results emerge from research looking at the impact of the mere possibility of published data for individual surgeons in the UK following the Kennedy inquiry into events at the Bristol Royal Infirmary.<sup>16</sup> The possibility of publication appears to have led to reduced mortality rates of heart patients.

An experiment from Wisconsin also suggests that the publication of information results in improvements.<sup>17</sup>

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<sup>15</sup> Epstein, A. (2006) Do Cardiac Surgery Report Cards Reduce Mortality? Assessing the Evidence. *Medical Care Research and Review*, 63(4): p 403-426.

<sup>16</sup> Bridgewater, B. et al. (2007) Has the publication of cardiac surgery data been associated with changes in practice in northwest England? *Heart*, 93, p 744-748.

<sup>17</sup> Hibbard, J., Stockard, J. & Tusler, M. (2003) Does publicizing hospital performance stimulate quality improvement efforts? *Health Affairs*, 22(2), p84-94.

Hospitals were given reports on their performance, and the reports and names of hospitals were published for one group. Attitudes and behaviours of senior managers were then monitored.

Those hospitals whose reports were not made public were relatively comfortable. Those hospitals whose reports were made public were unhappy. But this second group took more steps to address the areas where they performed badly.

A public assessment of performance made health professionals unhappy but was more likely to change behaviour.

The balance of evidence suggests that public reporting seems to work by changing the behaviour of providers of care, not by changing the behaviour of consumers.<sup>18</sup> But change does happen.

The field of education and school league tables is a little murkier.

The Ofsted regime of school inspections does appear to have improved standards, though some question aspects of its work.<sup>19</sup> Furthermore, Alex Freen, education editor of *The Times* says,

“Teachers hate Ofsted.”<sup>20</sup>

School league tables also are still contentious.

League tables and targets can distort behaviour through so-called ‘gaming’, for which there is ample evidence.<sup>21</sup>

League tables certainly change behaviour in education and sharpen incentives. One might dispute whether they have improved performance overall.

Evidence from the commercial sector shows regulation improves efficiency and quality of service.<sup>22</sup> These benefits are acknowledged to be even greater when regulators are able to compare the performance of similar businesses in the same sector, such as the regional water companies.

A spirited defence of league tables comes from Michael Barber, former head of the Prime Minister’s Delivery Unit. In his memoir, Barber writes,

“Not everyone in the public services likes league tables, but I love them.”<sup>23</sup>

Leaving aside the specific merits or otherwise of league tables, I think it is fair to say that overall the evidence shows that behaviour changes and performance improves in response to scrutiny and assessment.

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<sup>18</sup> Marshall, M., Shekelle, P., Leatherman, S., Brook, R. (2000) The Public Release of Performance Data—What Do We Expect to Gain? A Review of the Evidence. *Journal of the American Medical Association*, 283(14) p: 1866-1874.

<sup>19</sup> Matthews, P. & Sammons, P. (2004) Improvement through inspection—An evaluation of the impact of Ofsted’s work. Office for Standards in Education.

<sup>20</sup> Private communication.

<sup>21</sup> Wilson, D., Croxson, B & Atkinson, A. (2004) “What gets measured gets done”: Headteachers’ responses to the English secondary school performance management system, Bristol University Centre for Market and Public Organisation Working Paper No 04/107.

<sup>22</sup> Comptroller and Auditor General (2002) Pipes and wires. National Audit Office.

<sup>23</sup> Barber, M. (2007) Instruction to deliver—Tony Blair, Public Services and the Challenge of Achieving Targets. Politico’s.

## The impact of scrutiny on charities

So how would it work when it comes to charities? What are the mechanisms whereby performance would improve?

The simplest route is that informed donors would be more likely to pick better charities. The average £1 donated to charities would then have more impact. Relatively weak charities would lose funding, and that would be right.

The other routes involve changing charities' behaviour, either by highlighting alternative ways of working or threatening to punish poor performance. I believe the evidence supports in particular both these routes.

So far, I have argued that:

- (i) performance varies, and
- (ii) public scrutiny is good for performance.

The third and final element of the argument that scrutiny is good for you is about diversity of perspectives.

A wonderful illustration of this comes from baseball in Michael Lewis' book, *Moneyball*.<sup>24</sup> Lewis shows how the introduction of statistical analysis of baseball players' performance highlighted failings in the way players were assessed.

The pioneer in this was Billy Beane, the coach of the Oakland A's in California. And his innovative approach led to out-performance by a team with only modest resources. To begin with it also attracted scorn from hardened professional scouts.

The conventional way of picking baseball players was simply wrong. The received wisdom was that a player's hitting ability mattered. Crunching the numbers revealed that a player's ability to get on base is the real key.

Economists—that dismal lot again—never let a good story get in the way of the facts. Two academics subjected this theory to rigorous analysis, and confirmed it.<sup>25</sup>

As these economists noted;

“To execute the strategy, Oakland reached outside baseball circles and hired two young Ivy League graduates with quantitative backgrounds to evaluate personnel.”

So, a lesson from *Moneyball*—and a key point to me—is the importance of having diverse perspectives and skill-sets to assess and improve organisations. That is not some politically correct point about diversity; it is about the way people's minds work. As a general principle it has been confirmed by a variety of research.<sup>26</sup>

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<sup>24</sup> Lewis, M. (2003) *Moneyball*. W W Norton.

<sup>25</sup> Hakes, J. & Sauer, R. (2006) An Economic Evaluation of the Moneyball Hypothesis. *Journal of Economic Perspectives*, 20(3), p 173-185.

<sup>26</sup> Page, S. (2007) *The Difference—How the power of diversity creates better groups, firms, schools, and societies*. Princeton University Press.

## Conclusions on scrutiny

Picking a path through the mass of evidence on measurement, accountability and performance is difficult. But, I think certain statements are possible.

- First, scrutiny, assessment and measurement of performance changes behaviour. It leads to improved results.
- Second, the design of good systems is fraught.
- Third, making assessments public raises performance.
- Fourth, a lot of people still don't like it. Performance measurement and independent assessment arouse strong feelings.

## Why greater scrutiny of charities is inevitable

All this leads me to think that greater public scrutiny of charities and assessment of their performance would be a good thing. I also think it is becoming inevitable. Here are the reasons why.

Performance assessment is now so pervasive in the rest of society that it is hard to see how charities can escape. The fact that charities benefit from over a billion pounds of subsidy from taxpayers' money makes the anomaly harder to sustain.

Second, technology is deluging us with more information but it is also providing ever more sophisticated ways of ordering it. We can catalogue, tag, label, collate, pool and compare data in ways that just weren't practical in the past. This trend is not going to stop. We're going to have more and better information about our hospitals, government departments, our politicians, and so on. It is hard to see it bypassing charities.

Third, there are more ways of measuring value. Some of these are economic—measures derived from cost-benefit analysis, for example; others seek to capture true worth—for instance, measures focused on wellbeing. And some look at whole organisations, such as the civil service capability reviews.

As these techniques multiply, it seems reasonable to ask charities how well they measure up. Perhaps because they have never properly been asked to give an account of their results, many charities currently talk in abstract terms about measurement and value but ultimately fall back on assertion about their worth. In this they are uncomfortably like Tom Stoppard's academic philosopher George in his comic play *Jumpers*, who asserts,

"There are many things I know which are not verifiable but nobody can tell me I don't know them."<sup>27</sup>

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<sup>27</sup> Stoppard, T. (1972) *Jumpers*. Faber and Faber.

I am tempted to add a fourth reason, namely that donors are more demanding. And in certain respects I believe that to be true. There is some evidence that donors have not historically been concerned, but there is growing anecdotal evidence of a new breed of donors who care.<sup>28</sup>

In fairness, more charities are embracing this challenge and a number of initiatives are starting to foster greater transparency. The Charity Commission's Summary Information Return, the development of Guidestar UK, the ImPACT coalition of fundraising charities, and so on.<sup>29</sup> But progress is slow and only limited resources are committed.

Also, very little of this effort is really grappling with questions about results and about effectiveness. And, there is virtually no independent oversight and examination of charities' performance, other than by the organisation I work for, New Philanthropy Capital.

But is it ultimately desirable? It would be foolish to believe that it carries no risks. I can think immediately of four.

- First, criticism of individual charities could put them out of business by undermining their funding. That creates a big responsibility to proceed carefully and get it right.
- Second, if society does not discriminate greatly between charities, criticism of one might threaten donations to many more. Public scrutiny might threaten the funding of charities by undermining the notion that all are valuable.
- Third, it might genuinely be too difficult to do. Producing frameworks and measures of performance might be so hard that one falls back on simplistic measures. Creating good systems and methods represents a considerable challenge.
- The fourth risk is that we might destroy the very concept of charity by subjecting it to scrutiny. There is certainly evidence from other fields that changing the terms of transactions—whether by introducing money or assessment—can alter behaviour.<sup>30</sup> And there is a perfectly respectable school of thought that charitable activity in itself is valuable.

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<sup>28</sup> Cunningham, K. & Ricks, M. (2004) Why measure? Nonprofits use metrics to show that they are efficient. But what if donors don't care? *Stanford Social Innovation Review*, Summer, p 44-51. Scorpio Partnership (2007) *Philanthropy among ultra high net worth individuals and family offices in Europe*.

<sup>29</sup> National Council for Voluntary Organisations (2004) *Accountability and Transparency*.

<sup>30</sup> Le Grand, J. (2003) *Motivation, Agency, and Public Policy*. Oxford University Press.

I want to probe this last risk a little more. There is reluctance in the voluntary sector to accept scrutiny from outsiders. I see this through our work at New Philanthropy Capital. For example, I often describe our team of analysts to people within the sector—and point out that it is a group of brilliant young individuals from a range of backgrounds including charities, management consulting, journalism, economics, and investment research as well as straight out of university. Frequently, the only nod or gesture of acceptance comes when I mention that some of our team have worked in charities. Credibility seems to be given only to those who come from the sector. That is absurd.

Assessment by themselves of themselves seems the only acceptable way to many charities. If you are not one of us, how can you understand and assess us.

This attitude stems, I think, from being perpetually beleaguered. The system of funding and supporting charities is so dysfunctional that it creates a siege mentality. Good chief executives spend huge amounts of time raising money. Fundraisers are, for every success, rebuffed on numerous occasions. Barriers to growth prevent the scaling up of good projects, and random and irrational decisions by funders stop good work in its tracks.

Coupled with a conviction that they are doing good, this backdrop makes charities sceptical about the value of outsiders' perspectives. Credibility comes only from sharing the grind over sustained periods, not from being clever and wanting to ask questions. While this is changing, the pace of change is very slow.

Such an attitude has tremendous downside. Charities exist only to do good. Charities need to embrace scrutiny. If we look deeply at the evidence on scrutiny, we will find it persuasive. A shift towards genuine openness is the next step. If the sector grasps this nettle, it could preserve the concept and practice of charity but improve the effectiveness of charities.

Trustees—who often lack good information on which to assess their charities, and very rarely have good independent, or comparative data—are a natural agent of change here. They should help drive this agenda forward.

So, there are risks. There are always risks in any course of action.

### Conclusions—New body needed

Economics was most famously defined as the allocation of scarce resources between greater needs. That description applies even more powerfully to addressing the real need for charity—tackling subjects like violence, abuse, depression and mental health, as well as supporting the arts and other worthwhile causes.

If one accepts that (i) performance varies and (ii) it can be described, assessed and measured, then the moral imperative to seek out the highest social return, is powerful. Independent scrutiny and assessment are a vital part of that quest. The onus should be on those who want to protect charities from this to justify that position.

To date, government has done relatively little in this field, despite recognising the need for better information. Charities have not done enough to explain themselves properly to the public. And donors have not been enquiring and demanding enough.

New Philanthropy Capital is playing its role, such as developing frameworks to assess charities, and pioneering ways of measuring the impact of well-being; and, doing so, will bring in skill-sets rare in the sector. Even so, far greater resources overall are needed.

I believe a new institution is needed to sit alongside the Charity Commission. In contrast to the Commission's fundamental role of regulating the existence of charities, this new body should be concerned with assessing and improving the performance of charities. The Commission is not the right place for this to sit. Its regulatory role gives off too strong a whiff of lawyers and legalese. Looking at the performance of charities requires sprinklings of economists, management consultants, statisticians and auditors. They would sit more comfortably in a new body.

The body should be independent and should regard its stakeholders as donors and funders, charities and their beneficiaries. It should both assess and help to improve performance. In the early years this will require a considerable investment in R&D to develop the right metrics and frameworks.

The body should be officially sanctioned by government, and ideally be constituted as a non-departmental public body under the auspices of the Cabinet Office. It should report to a newly created House of Commons Third Sector Select Committee or, failing this, perhaps to the Public Accounts Committee. Staff should be drawn from a variety of backgrounds, not just the voluntary sector.

The body should be lean and should set out not to create bureaucracy but through its work to reduce the burdens which already bedevil charities. All government efforts to date in this regard have failed.

I think the body should work through influence rather than coercion. Charities' management and their trustees will want to listen to ways in which they can improve. The desire to be good at doing good is a potent mechanism.

The body would need to draw on experience and expertise in the sector, but it should avoid the fate of recent initiatives run from within the sector. These have tended to move at the speed of the slowest and have been damned by poor design. Independence, the ability to ask awkward questions and develop novel solutions must be key elements of this body.

It is important to stress that this proposal is not driven by a suspicion that charities are bad. It is driven by a desire to help them do more good. Charities are an important driver of social change. I want them to achieve more and to help good charities get more money to grow. And I want donors to have comfort that their money is used to good effect, hopefully encouraging more donations.

Charities in the UK have annual income of around £29 billion. Of this, almost £9 billion comes from you in individual donations. Even a small improvement in average performance would produce substantial returns.

Creating such a body would have far-reaching—and positive—consequences for the way charities are run and our confidence in their achievements.

To pick once more on Dame Suzi Leather's quote, I do not think that charities complete us. I take a more pessimistic view. I think that the social problems many charities address are an affront to us. They diminish us. Our charitable acts to address these problems only partly fill the gap. To plug the gap fully, we must squeeze as much return out of charity as possible. That is a moral imperative for all. Scrutiny, analysis and assessment of charities to this end aren't desirable, they are essential.

**Martin Brookes**

We welcome comments on the contents of this speech, email:  
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